



## **H.R. 1908 – Patent Reform Act of 2007**

### **EXECUTIVE SUMMARY**

Representative Howard Berman (D-CA) introduced the Patent Reform Act on April 18, 2007. The Ranking Member of Judiciary Committee, Rep. Lamar Smith (R-TX), is an original cosponsor of the bill. The bill will be considered on the floor under a structured rule on September 7, 2007.

H.R. 1908 represents the most significant changes to U.S. patent law since the Patent Act of 1952. The bill converts the U.S. patent system from a first-to-invent system to a first-inventor-to-file system. It also narrowly defines the factors courts must use when calculating damages and specifies the circumstances for which a court can find that an infringer has willfully infringed on a patent.

The Administration raised concerns regarding the limitations placed on the courts' discretion in determining damages for patent infringement.

The CBO estimates that implementing H.R. 1908 would cost \$3 million in 2008 and \$11 million over the 2008-2012 period.

### **FLOOR SITUATION**

H.R. 1908 is being considered on the floor pursuant to a structured rule. The rule:

- Provides one hour of general debate equally divided and controlled by the Chairman and Ranking Republican Member of the Judiciary Committee.
- Waives all points of order against consideration of the bill except those arising under clause 9 (earmarks) and 10 (PAYGO) of Rule XXI.
- Makes in order only those amendments printed in the Rules Committee report.
- Provides one motion to recommit with or without instructions.
- Provides that, notwithstanding the operation of the previous question, the Chair may postpone further consideration of the bill to a time designated by the Speaker.

The bill was introduced by Representative Howard Berman (D-CA) on April 18, 2007. The Ranking Member of the Committee on the Judiciary, Rep. Lamar Smith (R-TX), is an original

cosponsor of the bill. The House Judiciary Committee approved H.R. 1908, as amended, by a voice vote on July 18, 2007.

The bill is expected to be considered on the floor on September 7, 2007.

## **BACKGROUND**

The patent system plays a fundamental role in U.S. economic progress and technological innovation by providing ownership incentive for patented inventions. With its origins in Article I, Section 8 of the Constitution, the U.S. patent system today is administered by the U.S. Patent and Trademark Office (USPTO). In 2005, USPTO received more than 417,000 patent applications and granted more than 157,000 patents.

H.R. 1908 represents the most significant changes to U.S. patent law since the Patent Act of 1952. According to the Committee Report, “over the last several years, agencies like the USPTO and FTC, the National Academy of Science, professional organizations, industry coalitions, economists, academics and others have identified significant problems in the patent system...These problems have hindered the ability of patents to spur innovation today and have put at risk future innovation.”

## **SUMMARY**

First-to-File: The bill converts the U.S. patent system from a first-to-invent system to a first-inventor-to-file system. Under the proposal, the inventor who first files the application with USPTO would presumably be entitled to the patent.

This change would make the U.S. system more consistent with international standards. However, H.R. 1908 allows individuals to settle disputes before the USPTO. In addition, the bill maintains the one-year grace period, which allows inventors to publicly disclose their invention up to one-year prior to applying for a patent without it being used against their patent applications.

*Note: The U.S. is the only developed country that currently operates under the first-to-invent system, which grants the patent rights to the person who can demonstrate proof of the earliest invention date. This system can lead to time-consuming and costly administrative proceedings, referred to as an interference, to determine who is awarded the patent.*

Damages: Patent holders are provided damages to compensate for infringement on their inventions. Determining the appropriate value of compensation is challenging, especially because a products often contain multiple patented inventions and there can be additional factors beyond the invention. Under current law, courts are given discretion to set the formula for determining adequate compensation for damages.

H.R. 1908 narrowly defines the factors courts must use when calculating damages, making it more difficult for inventors to obtain compensation for infringement but also ensuring that an

inventor is rewarded only for his or her contributions to a product that contains multiple inventions.

*Note: According to the Statement of Administration Policy, “the Administration does not believe that a convincing basis has been established to justify H.R. 1908’s statutory change regarding the assessment of damages in patent infringement cases.”*

Willful Infringement: Under current law, a court may increase damages up to three times for individuals who willfully infringe someone else’s patent. The factors for determining willful infringement are left to the discretion of the court.

H.R. 1908 restricts the court’s discretion by specifying the circumstances for which a court can find that an infringer has willfully infringed a patent. The patent owner must provide convincing evidence that 1) the individual continued infringing a patent after receiving written notice from the patent owner; 2) the individual intentionally copied the patented invention with knowledge that it was patented; or 3) the individual continues infringing a patent after being found by a court to have infringed that patent.

Inequitable Conduct Defense: A common argument made by defendants in patent cases is “inequitable conduct,” which charges that the patent holder (the plaintiff) withheld or misstated material information regarding its patent in order to deliberately deceive the USPTO. This claim poses difficulties because of the uncertainty in determining the subjective belief of the patentee and because it adds layers of complexity and expense to the case.

In order to address this challenge, H.R. 1908 codifies the standards of intent, the evidence requirements for the defense, and the remedies for a finding of inequitable conduct.

Post Grant Review Process: The bill establishes a post-grant review procedure that allows persons to challenge the validity of a patent for up to 12 months after the patent was issued or reissued (or if the patent owner consents in writing to the proceeding). The individual filing the challenge must pay the fee established by USPTO to initiate the proceeding. The bill prohibits repeated filings against the same patent for the same reason.

Tax Planning Patents: The bill prohibits tax planning methods from being patented.

Venue: The bill limits the venues in which patent infringement cases can be brought to include only those where: 1) the defendant has a principle place of business or is incorporated; 2) the defendant has committed a substantial portion of its infringement and maintains a physical facility that constitutes a substantial portion of its business; 3) the primary plaintiff resides if it is an institute of higher learning; or 4) the plaintiff maintains a business.

USPTO Regulatory Authority: The bill grants USPTO the authority to promulgate federal regulations to ensure the quality and timeliness of applications and their examination.

Additional Filing Requirements: The bill grants the USPTO Director the authority to issue new regulations requiring applicants to include a search report and an analysis of the invention’s

patentability with each patent application. The bill includes an exemption for individuals and small businesses, referred to as micro-entities, so as not to impose overly burdensome filing requirements on entities with limited resources.

## **COST**

The CBO estimates that implementing H.R. 1908 would cost \$3 million in 2008 and \$11 million over the 2008-2012 period.

[CBO Estimate, H.R. 1908, Patent Reform Act of 2007](#)

## **ADDITIONAL VIEWS**

“While our patent system is in need of reform, we are very concerned that the bill in its present form picks winners and losers among industries with different business models...we remain concerned that the right balance has not yet been struck on many other crucial issues within the patent reform debate—such as damages, rulemaking authority for the Patent and Trademark Office (PTO), inequitable conduct, and others.”

*(Republican Leader John Boehner’s & Republican Whip Roy Blunt’s letter to Speaker Pelosi, 8/30/2007)*

“The Administration strongly supports the passage of patent modernization legislation that fairly balances the interests of all innovators by improving patent quality and reducing patent litigation costs...However, the Administration continues to oppose H.R. 1908’s limits on the discretion of a court in determining damages adequate to compensate for an infringement.” *(Statement of Administration Policy, 9/6/2007)*

## **AMENDMENTS**

*(Below are the summaries of the amendments that were made in order by the Rules Committee and may be offered on the floor of the House of Representatives)*

**1) Reps. John Conyers (D-MI) / Lamar Smith (R-TX) / Howard Berman (D-CA) / Rep. Howard Coble (R-NC): (Manager's Amendment)** The manager’s amendment incorporates a number of revisions. They include revisions to the sections on damages, willful infringement, prior user rights, post-grant review, venue, inequitable conduct, applicant disclosure information, inventor’s oath requirements, among others.

**2) Rep. Darrell Issa (R-CA):** The bill eliminates an exception in the law permitting certain applicants to prevent publication of their applications. This amendment would strike that provision and permit applicants to delay publication until the later of (1) three months after a second PTO decision (office action) or (2) 18 months after the filing date.

**3) Rep. Darrell Issa (R-CA):** Amends the section relating to United States Patent and Trademark Office regulatory authority by adding the requirement that Congress be provided 60 days to review regulations before they take effect. Congress may bar implementation of the regulation by enactment of a joint resolution of disapproval.

**5) Rep. Sheila Jackson-Lee (D-TX): (Revised)** This amendment requires the Director of the United States Patent and Trademark Office to conduct a study of patent damage awards in cases from at least 1990 to the present where such awards have been based on a reasonable royalty under Section 284 of Title 35 of the United States Code. The Director of the PTO would be required to submit the findings to Congress no later than one year after the Act's enactment.

**6) Rep. Mike Pence (R-IN):** Amends the provisions governing post-grant review proceedings to prohibit a post-grant review from being instituted based upon the best mode requirement of patent law.

#### **STAFF CONTACT**

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